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SUBJECT: AIR TANZANIA: SAVED BY CHINESE INVESTMENT?

11. (SBU) Summary. The Government of Tanzania appears to have finally found an investor to keep troubled Air Tanzania aloft, but the carrier's long term viability remains in question. After the Tanzanian Civil Aviation Authority (TCAA) revoked the airworthiness license of Air Tanzania Corporation Limited (ATCL) in December, only an emergency supply of USD 1.6 million from the GOT kept the airline in operation. Subsequently, there have been strong indications that a rumored investment by China Sonangol International Holding Limited will come to pass, despite allegations of a quid pro quo for oil concessions in southern Tanzania. End Summary.

#### Background

12. (U) Formed in 1977 after the dissolution of East African Airways, ATCL was privatized in February 2002 under the government's Presidential Parastatal Sector Reform Commission. In December 2002, ATCL entered into a partnership with South African Airways (SAA), the only airline to make a bid, giving SAA a 49 percent stake for USD 20 million that included the value of the shares and a USD 10 million capital investment. This relationship quickly soured as the new partnership recorded a USD 7.3 million pre-tax loss in the first year of operation. At the end of 2006, the relationship ended, with SAA selling its shares back to the GOT for USD 1 million. At the time of dissolution, ATCL owed SAA approximately USD 4.1 million. This debt has not been serviced and the payments, as well as legal actions taken by SAA in November 2008, continue to haunt the management of ATCL. Since the breakup with SAA, the GOT has been looking for an outside investor, until recently without success.

#### Grounded Due to Mismanagement

13. (SBU) The Tanzanian Civil Aviation Authority (TCAA) revoked ATCL's license in December 2008, reportedly because of a pending International Civil Aviation Organization (ICAO) report that detailed a host of failures by ATCL to properly implement and document international requirements. According to a senior ATCL pilot, one example of the company's deficiencies was that many pilots had not complied with international standards for training. With the damning ICAO report on the way, TCAA grounded ATCL before having to admit publicly that TCAA was not properly carrying out its own duties.

14. (SBU) Many insiders had forecast ATCL's downfall after SAA pulled out, so the revocation did not come as surprise. The heavy debt load, combined with a fleet of only six planes, with an average age of almost 18 years, made it difficult for ATCL to compete. Given these overwhelming difficulties, the 2006 decision by President Kikwete to name David Mattaka, a former National Pensions Fund Director, as the CEO of ATCL is widely heralded as hastening

ATCL's demise. It was immediately clear that Mattaka - a friend of Kikwete's who had been fired from his previous position - did not have the experience needed to guide the airline out of its tenuous situation. Mattaka reputedly handed out key positions on the basis of personal relationships rather than competence. His leadership appears to have encouraged a further deterioration of the already lax oversight culture within ATCL.

#### A Government Lifeline, and Chinese Investment on the Way?

15. (SBU) In January 2009, the GOT provided an emergency injection of USD 1.6 million for working capital. The funding enabled ATCL to resume flying on domestic routes only, but passengers have been scarce and cancellations frequent. According to press reports, the GOT plans to sell 49% of ATCL to China Sonangol International Holding Company, with backing from the Chinese Development Bank. The investment would enable ATCL to resume its international flights and upgrade its fleet. (Note: China Sonangol International Holding Company is largely connected to the vast petroleum-based relationship between China and Angola. It currently holds 30% of the Angolan-based SonAir. End Note.) ATCL official Thomson Byarushengo told Econoff that Chinese investment in ATCL is certain, but he could not confirm that an official Memorandum of Understanding (MOU) had been signed. Another ATCL official told Econoff that an MOU had been signed, but not yet made public. Zitto Kabwe, Chair of Parliament's Parastatal Oversight Committee (and noted opposition CHADEMA firebrand) has alleged that the GOT facilitated the deal by granting (unproven) oil concessions to Sonangol. The government denied the allegations, claiming that the negotiations on oil concessions concluded long before the ATCL deal began.

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16. (SBU) Comment: The GOT's commitment to supporting ATCL appears to be a matter of pride rather than business judgment (a competing private airline, Precision Air, which is linked with Kenya Airways, has operated profitably). If indeed the GOT traded oil concessions for life support for ATCL, it may have gotten a bad deal. The track record of ATCL, especially under current management, does not bode well for its future as an investment (or a reliable means of domestic transport).

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